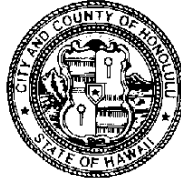


OFFICE OF THE MAYOR  
**CITY AND COUNTY OF HONOLULU**  
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JEREMY HARRIS  
MAYOR



March 2, 2003

The Honorable Gary Okino, Chair  
and Members of the City Council  
City and County of Honolulu  
Honolulu, Hawaii 96813

Dear Chair Okino and City Councilmembers:

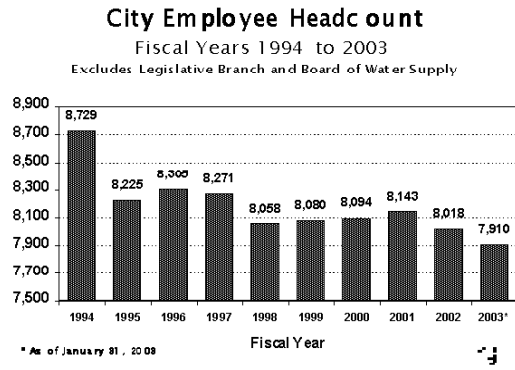
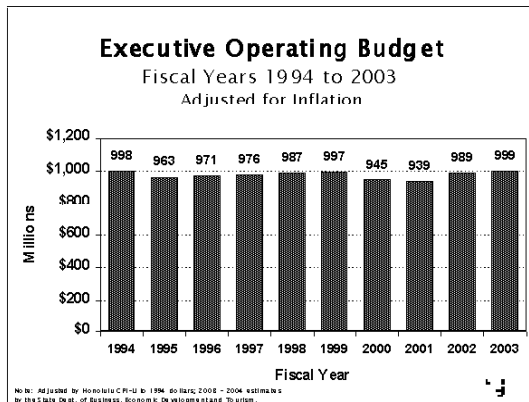
In accordance with Section 9-102 of the Revised Charter of the City and County of Honolulu, I submit for your consideration and adoption a balanced Operating Budget and Capital Budget for fiscal year 2003-2004 for the City and County of Honolulu.

**FY 2003 REAL PROPERTY TAXES \$49 MILLION LESS THAN IN FY 1994**

Over the past ten years, we have strived to reduce the real property tax burden on our property owners to help residents and business owners survive Hawaii's most severe and long lasting economic downturn. Our belief is that money in our residents' pockets is more important than increased City spending and taxes. The City's real property taxes are now \$49 million lower than in FY 1994. In fact, cumulative real property tax cuts have amounted to \$348 million in tax savings to our residents and business owners over the past ten years.

We have realized these tax savings by cutting the operating costs of the City and by using all available City resources. We reorganized the City government to eliminate the costs of three departments and to become more efficient. We streamlined permit processing to improve customer service. We automated the City's functions to be more cost effective and we formed public-private partnerships to expand services. Finally, we have become more innovative on how we conduct the City's business. For instance, on our web page, which did not exist ten years ago, residents can report problems, renew their vehicle registration, submit a land use permit, pay City bills and obtain economic and geographic information.

Due to these breakthroughs, the City's budget today is almost the same size as it was ten years ago, when adjusted for inflation. The City's workforce is now 9 percent smaller, with 819 fewer workers today than ten years ago. In fact, the City's employment is the lowest it's been since 1988, fifteen years ago. The following graphs summarize the changes in the City's operating budget and workforce from FY 1994 to 2003.



It is important to point out that we have not sacrificed quality or services to obtain these results. In fact, the City now serves more residents and visitors, employs more police officers and firefighters, and operates 28 percent more park space than ten years ago. Today, the City is ranked as having the "Best Web Site" in the nation, being the "Best City" for using technology in delivering governmental services, and having the best public transit system in North America. Finally, the City continues to hold a "AA" credit rating by the national bond credit rating agencies making the City one of the top 15 percent most credit worthy cities in America.

## ROAD TO FISCAL SUSTAINABILITY

In addition to becoming more efficient, effective, and customer friendly, one of our fiscal goals has been to become less dependent on the fluctuations of the real property market and to become more fiscally self-sustaining. We are accomplishing this goal by becoming financially autonomous, by having our operations advance towards being self-supporting, by increasing the City's return on its assets, and by privatizing functions for better utilization. Over the past few years, we have been laying the framework for the City to become more fiscally sustainable.

As the 12<sup>th</sup> largest City in the nation, Honolulu should have the ability to set and establish revenue measures that fairly apportion the cost of government to all users rather than overly burdening property owners. Other cities have the ability to enact excise taxes, to determine how vehicles are taxed, to recover their costs from their visitors and to establish taxes on discretionary spending. Honolulu should have this authority to become self-sufficient.

I am pleased that Governor Lingle's bill to return the unadjudicated traffic fines and forfeitures to the counties is advancing in the State. The Legislature is continuing to forward a bill to allow the City to charge a 0.5 percent excise tax. This bill would help Honolulu

more fairly distribute the cost of City services.

Throughout the City, we are working to make more of our operations self-supporting. Our bus fares are now set to recover at least 27 percent to 33 percent of the total operating costs of The Bus, limiting the City's subsidy to operate The Bus. Next year, the Department of Planning and Permitting will be embarking on a program to recover 100 percent of its operating costs through the fees it charges for land use changes, building permits, subdivision approvals and the like.

To protect our environment and reduce our need to landfill, we want to dramatically increase recycling with a new curbside recycling program. To accomplish this goal, the second day per week refuse pickup will become a pickup of recyclables, alternating weekly between green waste and newspapers/glass/plastic recyclables.

All of these refuse services, in addition to the monthly bulky item pickup, will continue to be offered at no charge.

A third weekly refuse pickup will be available to customers but will be optional and will be provided for a nominal charge of \$8 per month.

### Refuse/Curbside Recycling Service

	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
Week 1	1st Day Refuse Pickup	Automated Green Waste Pickup		Optional 3rd Day Refuse Pickup		
Week 2	1st Day Refuse Pickup	Recycling Pickup (Newspaper, Glass & Plastic)	Bulky Item Pickup	Optional 3rd Day Refuse Pickup		
Week 3	1st Day Refuse Pickup	Automated Green Waste Pickup		Optional 3rd Day Refuse Pickup		
Week 4	1st Day Refuse Pickup	Recycling Pickup (Newspaper, Glass & Plastic)		Optional 3rd Day Refuse Pickup		

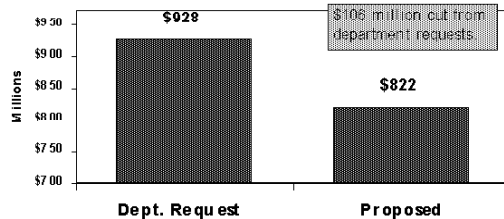
- ☐ 1<sup>st</sup> Day Refuse Pickup – No charge
- ☐ Green Waste Pickup – No charge
- ☐ Curbside Recycling Pickup – No charge
- ☐ Bulky Item Pickup – No charge
- ☐ Optional 3<sup>rd</sup> Day Refuse Pickup -- \$8 per month



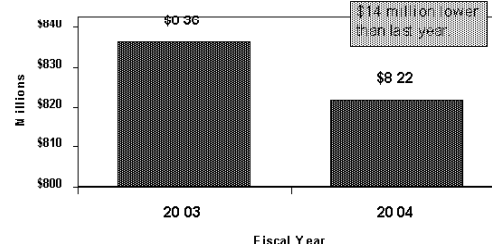
### SLIGHT INCREASE IN FY 2004 OPERATING COSTS

We have been able to limit real property taxes by continuing to control operating costs in FY 2004. Next year, the City's operating agencies will have a budget that is \$14 million or 1.7 percent less than the current fiscal year. It should be noted, that the Administration cut \$106 million from the departments' requests before the budget was finalized.

**Department and Agency Budgets**  
Department Request vs. Proposed



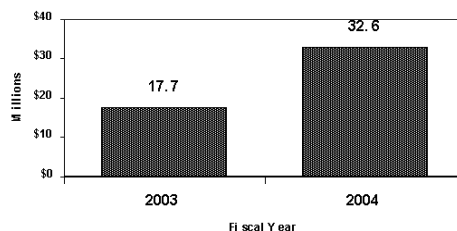
**Department & Agency Budgets**  
Fiscal Years 2003 and 2004



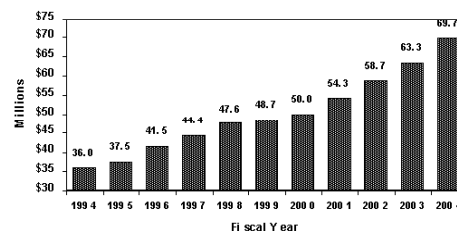
This decline in operating expenses is a result of deep cuts in operations as well as the continued streamlining of the City's functions and activities. In addition, we will not be funding about 955 vacant positions to further reduce the need for additional real property tax revenues. In doing so, the City will be saving about \$32 million next year without having any layoffs. We will continue to fund almost all of the City's vacant uniformed positions within our public safety agencies, as well as critical positions, and those funded by Federal and State monies.

The City continues to face escalating outside costs in FY 2004. Next year, workers' compensation costs are to increase by \$1.4 million, or 13 percent. The City's health fund contributions are to increase \$6.4 million or 10 percent in FY 2004. In addition, the City's contribution to the State Employees' Retirement System will increase \$14.9 million or 84 percent next year.

**Retirement System Contributions**  
Fiscal Years 2003 and 2004

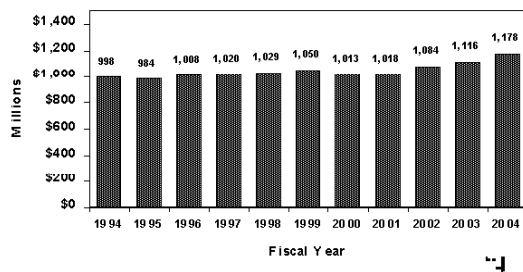


**Health Fund Contributions**  
Fiscal Years 1994 to 2004

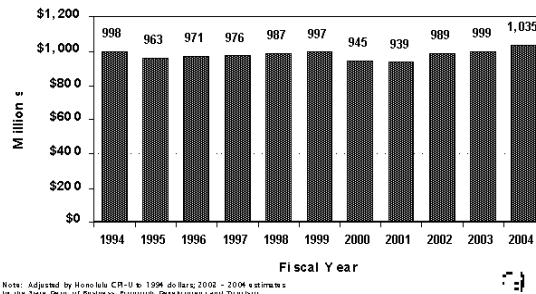


Thus, the operating savings realized in the City's departments and agencies will be offset by the increases in fixed costs. Accordingly, the City's Operating Budget for FY 2004 is projected to be 5.6 percent higher than the current fiscal year and total \$1.178 billion. However, when inflation is taken into consideration, the City's Operating Budget for FY 2004 will be only \$37 million higher, or 3.7 percent higher, than the Operating Budget in FY 1994, ten years ago, as shown in the following graphs:

**Executive Operating Budget**  
Fiscal Years 1994 to 2004



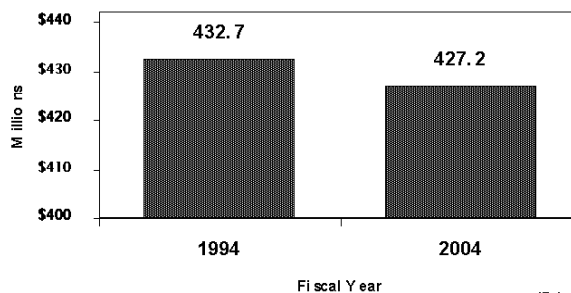
**Executive Operating Budget**  
Fiscal Years 1994 to 2004  
Adjusted for Inflation



## MODEST REAL PROPERTY TAX INCREASE

While we have been extremely successful in streamlining City operations, reducing costs through automation and increasing productivity, we cannot realistically continue to provide increasing levels of service to a growing population with less tax revenue than we had 10 years ago. This situation is exacerbated by the fact that costs such as the City's payments into the Employee Retirement System and the State Health Fund continue to grow unchecked, cost factors over which we have no control. Therefore, I will be proposing a modest tax increase for FY 2004. This tax plan, however, will still keep taxes \$5.5 million below FY 1994 levels.

**Budgeted Real Property Tax Revenues**  
Fiscal Years 1994 and 2004



## CONSOLIDATED REAL PROPERTY TAX RATES

The City's current real property tax rate structure is not equitable as it treats businesses differently depending upon the classification of the land where the business is located. Accordingly, in implementing the proposed modest real property tax increase, I am proposing to consolidate the City's eight real property tax rates into three property tax rate categories: residential, non-residential and unimproved residential.

The residential tax rate category would include the single family residential and apartment/condominium classes and complete the City's three-year commitment to equalize these rates. For FY 2004, I am proposing that the tax rate for this category be \$3.75 per thousand of assessed value. Single family residents would see a 2.7 percent increase in their rate while the condominium owners would experience a 4.5 percent decline in their rates, as shown in the following table:

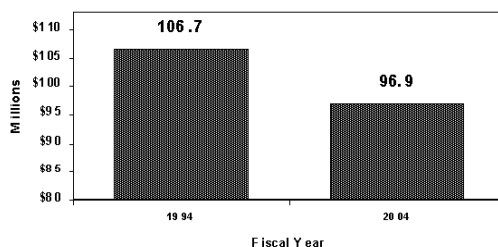
### Improved Residential Tax Rate Category

Improved Residential	FY 2003	FY 2004	% Change
Single Family Residential	\$3.65	\$3.75	2.7%
Apartment/Condominium	\$3.93	\$3.75	(4.5%)

The non-residential tax rate category includes commercial, industrial, agriculture, conservation and hotel/resort land uses. The single tax rate for this tax rate category would be \$10.63 per thousand of assessed value. Even with these modest tax rate increases, each of the property classifications would continue to pay less tax than they did 10 years ago, as shown in the following graphs:

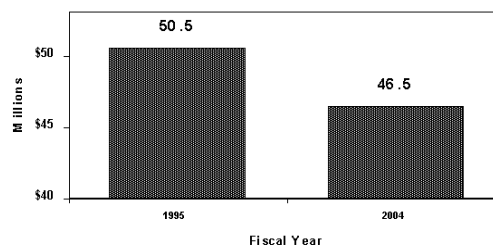
### Budgeted Real Property Tax Revenues Commercial

Fiscal Years 1994 and 2004



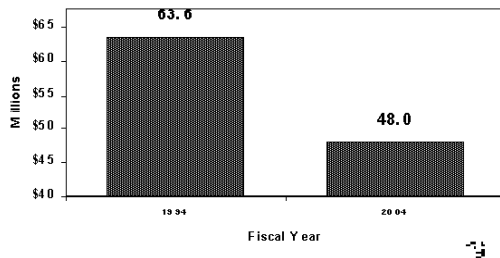
### Budgeted Real Property Tax Revenues Industrial

Fiscal Years 1995 and 2004



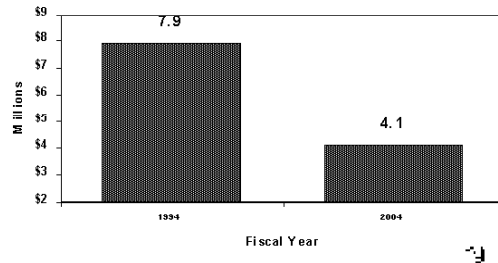
### Budgeted Real Property Tax Revenues Hotel/Resort

Fiscal Years 1994 and 2004



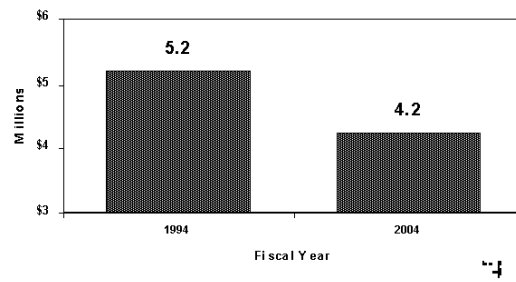
### Budgeted Real Property Tax Revenues Agricultural

Fiscal Years 1994 and 2004



### Budgeted Real Property Tax Revenues Conservation

Fiscal Years 1994 and 2004

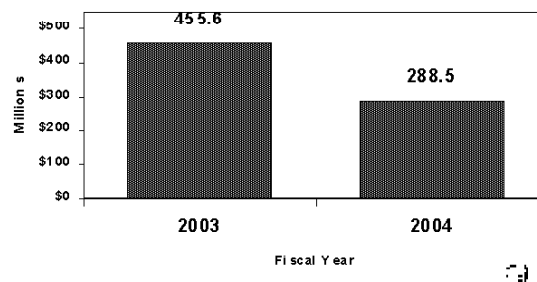


## CAPITAL BUDGET

The FY 2004 Capital Budget, as submitted, totals \$288.5 million compared to \$455.6 million in FY 2003, a reduction of \$167.1 million.

### Capital Budget

Fiscal Years 2003 and 2004



Honorable Gary Okino, Chair  
and Members of the City Council  
March 2, 2003  
Page 8

The FY 2004 Capital Budget invests in our future with projects essential for improving the quality of life for all our residents and visitors. This budget focuses on wastewater collection and treatment systems, road resurfacing, and transportation.

#### Capital Budget Highlights

- \$288 million - \$167 million lower than last year
- \$85.5 million - Highway & Street Improvements
  - \$40 million for Road Resurfacing
  - \$14 million for ADA Curbs
  - \$5 million for Bikeway Improvements
- \$15 million for Public Safety
- \$13 million for new Bus and Handivan
- \$6 million for Homeless Facility

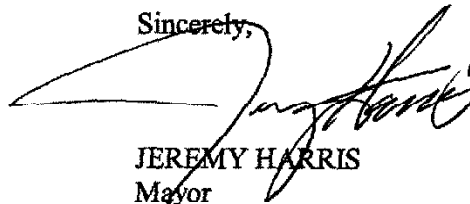


With the cooperation of our Vision Teams and Neighborhood Boards, we were able to focus the Capital Budget on our most pressing needs and the ones that benefit our communities.

\* \* \* \*

We look forward to working with the City Council in the review and discussion of the fiscal year 2004 Operating and Capital budgets. We welcome your perspective of City operations and I pledge to work with you to improve our process for the benefit of our residents.

Sincerely,



JEREMY HARRIS  
Mayor